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FISCAL IMPACT STATEMENT

LS 6962

BILL NUMBER: SB 517

NOTE PREPARED: Apr 10, 2013

BILL AMENDED: Apr 8, 2013

SUBJECT: Local Government Finance.

FIRST AUTHOR: Sen. Miller Pete

FIRST SPONSOR: Rep. Huston

BILL STATUS: As Passed House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Pilot Project:* This bill authorizes the Department of Local Government Finance (DLGF) to establish a three year pilot program concerning nonbinding review of budgets, property tax rates, and property tax levies. It provides that for a county to be eligible for designation as a pilot county, the county fiscal body must adopt a resolution and submit an application to the DLGF. The bill allows the DLGF to designate not more than three counties as pilot counties.

The bill specifies that the following apply in 2014 and thereafter in a pilot county:

- (1) Each taxing unit in the pilot county must file with the DLGF the taxing unit's proposed budgets, property tax rates, and property tax levies.
- (2) When formulating the taxing unit's estimated budget, property tax rate, and property tax levy, each taxing unit shall consider estimated consequences of the circuit breaker property tax credits.
- (3) The DLGF shall prepare an analysis of the proposed budgets, property tax rates, and property tax levies submitted by taxing units in the pilot county and provide the analysis to the county fiscal body and to the fiscal body of each taxing unit in the pilot county.
- (4) Upon request by the county fiscal body, representatives of the DLGF shall appear before the county fiscal body to review the analysis.
- (5) The county fiscal body shall review the proposed budgets, property tax rates, and property tax levies of each taxing unit in the pilot county and the total tax rate of each taxing district in the county, and shall issue a nonbinding recommendation to each taxing unit.

Debt Service Fund: For all taxing units, this bill provides that the maximum amount allowed for an operating balance in the debt service fund is the sum of:

- (1) 50% of the budget estimate for the debt service on debt incurred before January 1, 2009 or on debt incurred between 2008 and July 1, 2013, if a bond payment is due in the first ten days of the year; plus
- (2) 25% of the amount budgeted for the ensuing year for other debt service

The bill provides that taxes levied under the allowance may not be construed as an increase in a political subdivision's property tax levy to make up for a reduction in property tax collections under the circuit breaker law.

Circuit Breaker Allocation: The bill provides for proportional allocation of circuit breaker losses. It allows political subdivisions to transfer money from other funds to debt service funds when property tax reductions reduce debt service fund balances below the amount needed to meet debt service obligations.

School General Fund Transfers: This bill permits a school corporation to make a transfer from its general fund to its transportation fund or school bus replacement fund if more than 75% of its transportation fund levy or bus replacement fund levy is lost due to:

- (1) the application of the circuit breaker credit; plus
- (2) the tax allocations made to protect taxes that are protected from the circuit breaker credit.

The bill limits the general fund transfer to 50% of the revenue lost by the impacted fund.

Debt Restructuring: The bill specifies that an eligible school corporation may adopt a resolution before January 1, 2014, to use certain debt restructuring statutes.

Distressed Schools: This bill provides that in the case of a school corporation designated after June 30, 2013, as distressed by the Distressed Unit Appeal Board (DUAB) upon submission of a petition by the school corporation requesting the designation, the DUAB shall appoint an emergency manager for the school corporation. (Under current law, the DUAB is required to appoint an emergency manager for each political subdivision, other than a school corporation, that is designated as distressed.)

The bill also allows the DUAB to approve a petition submitted jointly by the governing body and the superintendent of a school corporation requesting authority to transfer before July 1, 2015, excess funds in the school corporation's debt service fund to the school corporation's transportation fund.

School Pension Debt Neutralization: The bill provides that in the case of a school corporation that has issued bonds to implement solutions to contractual retirement or severance liability and that has elected to phase in the reductions to the school corporation's levies for transportation, school bus replacement, capital projects, and art association and historical society funds, as appropriate, the schedule of annual levy reduction percentages is lengthened from three years to five years by adding two additional 25% reduction years in years two and three of the phase-in.

Real Property Exchange: This bill allows a school corporation in LaPorte County to exchange real property for services provided by another governmental agency.

Solid Waste Management Districts: The bill changes the deadline for solid waste management districts to submit certain information to the DLGF from February 1 to March 1.

Goodland: This bill allows the town of Goodland to borrow money to offset a levy reduction resulting from the improper submission of its budget and levy information to the DLGF.

Property Tax Exemption: The bill authorizes a taxpayer to claim a property tax exemption for the March 1, 2009, assessment date for property leased to the Bureau of Motor Vehicles (BMV) or Bureau of Motor Vehicles Commission (BMVC).

Effective Date: (Amended) Upon Passage; January 1, 2009 (Retroactive); July 1, 2013.

Explanation of State Expenditures: *Pilot Project:* Under this provision, the DLGF would develop the framework for continuation of a more thorough review in all counties without the DLGF's direct involvement. The DLGF would initially have to commit additional resources to the counties that it chooses to be a part of the pilot project and for the development of the framework in general. The additional cost to the DLGF is currently unknown.

Study of Local Budget Process: This bill urges the Legislative Council to assign the study of the local budget process to a study committee. If the committee were to hold additional meetings to address this topic, there would be additional expenditures for legislator per diem and travel reimbursement for the committee members. Any additional expenditures must be within the committee's budget, which is established by the Legislative Council.

Explanation of State Revenues:

Explanation of Local Expenditures: *School General Fund Transfers:* Beginning in CY 2013 under HEA 1072 (2012), circuit breaker losses are to be allocated only to unprotected levies. Beginning in CY 2013 under this bill, circuit breaker losses would be allocated proportionately among all funds in a taxing unit. (See *Circuit Breaker Allocations* in Local Revenues.)

Under this provision, school corporations that have circuit breaker losses exceeding 75% of their transportation and bus replacement funds would be permitted to transfer funds from the general fund to these two funds in an amount up to 50% of the loss. Under the wider circuit breaker allocation that would begin under this bill in 2013, no school corporations would qualify for the transfer.

Explanation of Local Revenues: *Pilot Project:* A county fiscal body may apply to the DLGF to become one of three pilot counties under this provision. A more thorough review of local budgets by the county fiscal body could create better understanding of the interrelationship between the taxing units regarding property tax circuit breakers. Since the review is nonbinding, just as it is under current law, any change to a taxing unit's budget, levy, and tax rate would up to the officers of each taxing unit.

Debt Service Fund : In CY 2012, civil taxing units and school corporations had 1,232 debt service funds with a total budget appropriation of \$1.95 B (including additional appropriations). Budgeted operating balances in the funds totaled \$695 M or 36% of the total budgets, on average.

Of the 1,232 total debt service funds, 450 had an operating balance of 25% or less and 782 funds exceeded 25%. Under this provision, there would be a one time balance reduction of an undetermined amount if balances for certain debt service funds were held to a 25% balance. Balances would be reduced by cutting property tax levies for one year, resulting in tax rate decreases for one year.

The bill specifies that property taxes imposed to maintain the allowable operating balance may not be construed

as an increase in the levy to replace circuit breaker losses.

Circuit Breaker Allocation: Beginning with 2013 allocations, this bill changes the allocation of circuit breaker credits within a taxing unit so that all funds of the taxing unit share proportionately in the revenue reduction. Total unit revenues are not affected.

The bill requires debt to be paid from a unit's debt service fund. The bill also permits taxing units to transfer money from its other funds into the debt service fund if circuit breaker losses reduce the debt service fund below the amount needed to meet obligations.

Background: Currently, certain levies are exempt from the calculation of property tax limits under the circuit breaker law. These include levies that are approved in a referendum and levies in Lake and St. Joseph Counties for debt incurred before July 1, 2008. Under current law, when a taxing unit distributes tax receipts among its funds, the total amount collected from exempted funds must be allocated to those funds without any adjustment for circuit breaker credits.

Beginning in CY 2013 under HEA 1072 (2012) both the exempt levies plus any debt service levies that are not exempt are deemed "protected taxes". The total amount of protected taxes collected are to be allocated to the appropriate fund without any adjustment for circuit breaker credits. The tax loss created by the circuit breaker credits is to be allocated among the unprotected funds.

Debt Restructuring: Under current law, school corporations must adopt a resolution by June 30, 2013 to be permitted to refinance debt under the debt restructuring statute. The DUAB must also approve the school corporation's refinancing plan. Under this bill, the deadline to adopt the resolution would be extended to December 31, 2013.

Background: Under current law, certain school corporations are permitted to transfer certain amounts from their debt service levies to their capital projects, transportation, and school bus replacement funds. Eligible school corporations include corporations that have circuit breaker losses from all funds that are at least 20% of the levies in the nondebt funds (i.e., capital projects, transportation, school bus replacement, and racial balance). Eligible schools may currently refinance up to 50% of their existing bonds for a period not exceeding 10 years past the original term. The difference between the old debt service levy and the levy for the refinanced bond (or 0 for a retired bond) is the incremental levy amount and may be transferred, up to the amount of the circuit breaker losses, to the other funds.

School Pension Debt Neutralization: This provision would add two years to the current pension debt neutralization adjustment schedule, resulting in property tax levy increases from 2014 through 2017. Compared to current law, an increase in property tax levies would cause tax rates to increase and could result in an increase in circuit breaker losses for the affected school corporations and the civil taxing units that intersect with them.

In 2013, 214 school corporations imposed \$107.9 M in levies for the school pension debt fund. Assuming that the levies remain at that level, the following table shows the differences between the current and proposed neutralization schedules and the resulting increases in the levies of the schools' other funds.

Year	Current Reduction	Proposed Reduction	Current Reduction in Other Levies	Proposed Reduction in Other Levies	Change in Other Fund Levies
2013	25%	25%	\$27.0 M	\$27.0 M	-0-
2014	50%	25%	53.9 M	27.0 M	+ 27.0 M
2015	75%	25%	80.9 M	27.0 M	+ 53.9 M
2016	100%	50%	107.9 M	53.9 M	+ 53.9 M
2017	100%	75%	107.9 M	80.9 M	+ 27.0 M
2018+	100%	100%	107.9 M	107.9 M	-0-

Background: Previous to HEA 1192 (2012), school corporations that have pension bonds were to reduce the property tax levy for one or more of the nondebt funds to offset the levy in the pension bond fund. Under HEA 1192 (2012), school corporations are permitted to adopt a resolution to adjust the offset for three years. The adjustment amount for the levies in the nondebt funds is currently equal to 25% of the pension bond levy in 2013, 50% in 2014, and 75% in 2015. The levy offset currently returns to 100% of the pension bond levy in 2016.

Goodland: This provision would allow the town of Goodland to borrow in 2013, the difference between its maximum permissive levy and the actual certified levy, or about \$32,600. The DLGF would calculate the actual amount allowed. The town would impose a debt service levy in 2014 to pay the off loan.

The additional levy in 2014 would cause an increase in the 2014 tax rate. Property tax bills would rise for taxpayers who have not yet reached their tax cap. Circuit breaker losses would increase for taxing units that intersect with Goodland.

Property Tax Exemption: Under this provision, property owners in Marion County that leased property to the BMV or BMVC on March 1, 2009 may, before September 1, 2013, file for an exemption of property taxes payable in 2010. If the property is eligible for the exemption, the 2010 tax bill would be cancelled. Amounts not paid would not be due and amounts already paid would be refunded. Property tax refunds reduce current year tax revenues for affected taxing units.

One location has been identified with a 2010 property tax bill of \$6,206.50. However, there are currently nine BMV branches in Marion County.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County fiscal bodies; Local civil taxing units and school corporations; Town of Goodland.

Information Sources: Local Government Database.

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